

Revenue Adjustment Mechanism Agreement

General

After extensive settlement discussions between the Division of Ratepayer Advocates (DRA) and California Water Service Company (Cal Water) collectively (Parties) concerning water conservation and a revenue adjustment mechanism (RAM) the Parties have reached agreement on these issues. In short, the Parties agree that a RAM in conjunction with increasing quantity block rates (“tiered rates”) should be implemented for this rate case cycle for the eight districts in this consolidated proceeding in the first test year, except for the Kern River Valley and Redwood Valley districts and the Fremont Valley area of the Antelope Valley district, assuming a Rate Support Fund is adopted for these areas. If a Rate Support Fund is adopted for Kern River Valley Redwood Valley, and Fremont Valley the Parties recommend that Cal Water should be authorized to file an advice letter with proposed tiered rates and a RAM for these areas no earlier than 24 months after implementation of the Rate Support Fund.

The Parties cannot agree on this agreement’s effect, if any, on Cal Water’s authorized return on equity. Therefore, the Parties agree to address this issue as part of the cost of capital discussion in the concurrent briefs due to be filed on March 9, 2006.

The Parties agree that implementation of the proposed RAM and accompanying increasing block rates is a novel situation. As such, the Parties agree that future recommendations to adjust, modify, or eliminate increasing block rates and/or RAM are not to be construed as a violation of this agreement.

Because this Stipulation represents a compromise by the Parties, the Parties have entered into the Stipulation on the basis that its approval by the Commission not be construed as an admission or concession by any party regarding any fact or matter or law in dispute in this proceeding. Furthermore, the Parties intend that the approval of this Stipulation by the Commission not be construed as a precedent or statement of policy of any kind except to the extent expressed within the Stipulation.

Details of the Parties agreement are discussed below:

Increasing Block Rates

The Parties agree that increasing block rates should be implemented in the first test year for all districts and all customer classes not covered by a Ratepayer Support Fund. Accordingly, within 30 days of the filing of this agreement the Parties intend to provide detailed rate design criteria for implementing increasing block rates by district for single-family residential customers. For other customer classes, the Parties intend to provide detailed rate design criteria for implementing increasing block rates by district within 60 days of the filing of this agreement. Additionally, the Parties have agreed to propose that the rate design criteria be adopted by the Commission in deciding the ratemaking issues

and establishing a revenue requirement in this proceeding. And, that within 60 days of adopting rate design criteria the Parties be directed to file rates with the Water Division that comport with the adopted rate design.

With respect to the rate design criteria the Parties recognize that it may take time to perfect the transition from the current single block quantity rates to increasing quantity block rates that provide customers with the appropriate price signals. Moreover, the Parties are aware that the data needed to develop billing determinants by customer class may not be complete and have agreed to apply their best judgment where data is unavailable or incomplete. For future rate proceedings, Cal Water has agreed to modify its billing data record keeping to include data that the Parties identify as necessary for developing billing determinants. For these reasons and to maintain revenue neutrality within customer classes, the Parties have agreed to moderate the differential between rate blocks in the rate design criteria in the initial implementation of increasing quantity block rates in this rate case cycle, and to consider increasing the differential as appropriate in future general rate proceedings.

The Parties agree that Cal Water will inform its customers by mailing or bill insert regarding the new tiered rate structure and available conservation programs for customers to manage their water consumption at the time it files an advice letter requesting tiered rates. The notification of customers will include example calculations showing the impact on a typical customer's bill of total consumption in the lowest, middle and highest tiers.

Revenue Adjustment Mechanism (RAM)

In reaching agreement the Parties propose a RAM that tracks all monthly changes in water sales-related revenues above or below the adopted water sales-related revenues. Changes in recorded revenues associated with service charges, reconnection charges, returned check charges, non-tariffed goods and services, and other items not related to water sales are excluded from the proposed RAM. Cal Water will continue to be at risk for any changes in revenues not related to water sales. The Parties agree that for each affected district and customer class, RAM will take effect simultaneous with the implementation of tiered rates.

All over- and under-collections will be recorded monthly in a RAM balancing account for each affected district. For tracking monthly recorded versus adopted water sales-related revenues the adopted water sales-related revenues should be distributed by month based on Attachment A that shows the recorded percentage of annual sales by month.

Annually, by March 31st Cal Water should report in writing to the Water Division for each district with a RAM balancing account the revenue over- and under-collection related to recorded water sales as of December 31st of the preceding calendar year. Differences between recorded revenues and adopted revenues less consumption-related cost savings, which are tracked in the balancing account should be subject to interest at the 90-day commercial paper rate. If the annual report filed with Water Division

indicates that the over- or under-collection for any district exceeds 5% of the district's prior calendar year total recorded revenues Cal Water should be required within 30 days to file an advice letter amortizing the balance in the account. In each general rate filing Cal Water should request an amortization of any remaining amounts in the RAM balancing account. The parties agree that over or undercollections within any given customer class will be amortized within that customer class where reasonable and practicable.

To track the changes in sales-related revenues the Parties propose that the Commission's decision in this proceeding identify the adopted water sales-related revenue in total dollars and the total water production costs (TWPC) (purchased water, purchased power, chemicals, and pump taxes uncollectible and franchise/business license) per hundred cubic feet (Ccf).

Monthly, CWS will track the adopted monthly sales versus the actual recorded monthly sales. CWS will then track the revenues OF EACH less the respective total water production costs of each and book any over or undercollection between the recorded and adopted amounts in the RAM. The total water production costs for either the adopted or recorded sales are equal to the TWPC multiplied by the RESPECTIVE total water sales in Ccf. The adopted and recorded Ccf total water production costs should be adjusted when Cal Water is authorized a change in rates for water production costs not reflected in the adopted amount in the decision. Since the TWPC rate is similar to the ECAC rate for energy utilities, it should be identified on Cal Water's metered rate schedules. The Parties agree that this RAM agreement for tracking sales-related revenues is not intended to result in a full-cost balancing account for water production costs. (See Attachment B)

Review Period and Applicability to Other CWS Districts

The Parties understand that the structure and operation of the RAM balancing account and tiered rates, may be addressed in future general rate proceedings. Accordingly, in the next general rate proceeding for these districts the Parties intend to examine the reaction and responsiveness of consumers to tiered rates and conservation measures. And, based on their findings, the Parties may propose rate design changes, including increasing the rate differential between tiers to achieve desired demand reductions and price signals.

Furthermore, the Parties agree that this settlement should apply to all other districts for which Cal Water seeks a sales-related RAM. Therefore, Cal Water has agreed that if it requests a sales-related RAM for another district in a subsequent rate case, that it will also propose simultaneous implementation of increasing block rates that are consistent with what the Commission adopts for the districts in this proceeding, subject to any changes that may be mutually agreed upon by the Parties and by intervenors in the GRCs of the districts in subsequent GRCs.

Conservation Expenses

Because of the interrelationship between conservation and water revenues the Parties carefully considered the importance of conservation programs in reaching agreement on the proposed RAM. As shown in the Stipulation on Stipulation of California Water Service Company and the Division of Ratepayers Advocates the Parties agreed to conservation expenditures that reflect DRA's analysis of Cal Water's proposed conservation programs and recommend that the full amount of conservation expenses shown in the Stipulation be reflected in rates. Additionally, the Parties propose that the Commission adopt a one-way balancing account to track any unspent conservation expenses for the three year rate case cycle and report the status of the balancing account in its next rate case filing.

CWS also agrees it will file an annual summary report with the Commission and DRA showing which conservation activities CWS undertook and the costs of each organized by district. This annual water conservation report shall include a brief explanation of the need for each activity, and the nature of the activity, measurable goals, and the results and achievements of each program (i.e. number of units distributed or installed, estimated water savings in Ccfs and dollars, etc.). It should also include a summary of the conservation plan for the following year, implementation plans and budgeted amounts for each activity. This report would be supplemental to the required Urban Water Management Plan filed by CAW in its GRCs per D.92-09-084. (D.92-09-084 (1992) 1992 Cal. PUC LEXIS 958, *34-*35, *38.)